

COUNTY OF SACRAMENTO

DEPARTMENT OF FINANCE - AUDITOR-CONTROLLER DIVISION – INTERNAL AUDITS UNIT

INTERNAL AUDIT REPORT

NON-POOLED INVESTMENTS PERFORMANCE AUDIT REPORT

TREASURY OVERSIGHT COMMITTEE



Audit Committee Submittal Date: 05/20/2021

SUMMARY

Background

As per Government Code Section 27131, the Sacramento County Treasury Oversight Committee (Committee) was established to oversee County of Sacramento (County) investments. As such, the Committee requests the Department of Finance to perform an audit on a quarterly basis to verify County non-pooled investments' compliance with the governing investment policy document and applicable laws and regulations.

Audit Objective

The audit was conducted to verify the County Non-Pooled Investment Fund's compliance and the internal control over compliance with the governing investment policy document for the quarter ended March 31, 2021.

Summary

Based on the audit, County Non-Pooled Investment Fund complied with the governing investment policy document and applicable laws and regulations for the quarter ended March 31, 2021. The internal control over compliance with the governing policy document appeared adequate.

COUNTY OF SACRAMENTO

Treasury Oversight Committee
Non-Pooled Investments
Performance Audit Report

For the Quarter Ended March 31, 2021

Audit Staff:

Hong Lun (Andy) Yu, CPA
Jennifer Cabrera

Audit Manager
Auditor

**COUNTY OF SACRAMENTO
TREASURY OVERSIGHT COMMITTEE
NON-POOLED INVESTMENTS
PERFORMANCE AUDIT REPORT
FOR THE QUARTER ENDED MARCH 31, 2021**

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Department of Finance

Ben Lamera
Director



Auditor-Controller Division

Joyce Renison
Assistant Auditor-Controller

County of Sacramento

April 30, 2021

The Honorable Board of Supervisors and the
Sacramento County Treasury Oversight Committee
County of Sacramento, California

We have audited the Sacramento County Non-Pooled Investment Fund (Fund) for the quarter ended March 31, 2021.

Our audit was conducted to verify the Fund's compliance with County of Sacramento, Non-Pooled Investment Policy (Policy) as described below for the quarter ended March 31, 2021, and to verify whether the Department of Finance, Treasury Division (Treasury) and Investment Division (Investment) have adequate internal controls to ensure the Fund's compliance with the Policy.

Non-Pooled Investments primarily consist of investments purchased with proceeds from Mello Roos Bonds (MR), Revenue Bonds (REV), General Obligation Bonds (GO), Assessment District Bonds (AD), Community Facilities District Bonds (CFD), Certificates of Participation Notes (COPs), and Tobacco Securitization Proceeds (TSP). The Policy for the bonds is set forth in either the bond resolution, the bond indenture or by the bond insurer (governing investment policy document). The Policy for the Tobacco Securitization Proceed is set forth in the Tobacco Securitization bond resolution and bond indenture.

The majority of the bond investments are limited to those authorized by California Government Code Section 53601 et seq. Any other authorized investments are indicated in the governing investment policy document.

Management is responsible for the design, implementation, and maintenance of effective internal control to ensure the Fund's compliance with the Policy.

The scope of our audit includes all non-pooled investments for the quarter ended March 31, 2021.

The audit methodology utilized to conduct the performance audit included:

Interview:

- We interviewed various Treasury and Investment staff to gain an understanding of policies, procedures, and processes for ensuring the Fund's compliance with the Policy.

Document Review:

- We reviewed the organizational chart and written documentation to understand the relevant policies, procedures, and processes and to identify any internal control weaknesses, conflicts of interest, or inadequate segregation of duties.

Process Walkthrough:

- We had Treasury and Investment staff walk us step-by-step through processes related to the daily activities of the Fund. We verified whether staff had followed the policies and procedures.

Testing:

- We verified that the SunGard Financial Services, Inc., Advanced Portfolio System II non-pooled investment balances agreed with the custodian statements.
- To test for compliance with the Policy, we randomly selected ten (10) of the forty (40) non-pooled internal and external management investments based upon outstanding issues at March 31, 2021. The sample size was determined by selecting all new issues of the period under review as well as the remaining non-pooled investments. During this quarter, however, there were no new issues. Non-pooled investments selected for testing included only internally managed funds. See Schedule I, *Sample of Non-Pooled Investments Tested for the Quarter Ended March 31, 2021*. The ten (10) internally managed funds selected for testing totaled \$133,295,847.25, which represented approximately 24% of total internally managed non-pooled investments in the amount of \$553,143,714.85. The one (1) externally managed fund totaled \$92,838.14, which represented 100% of externally managed non-pooled investments, but was not selected for testing this quarter.
- We inspected the portfolio monitoring report for ten (10) selected investments and tested for accuracy.
- We verified that investments were made in accordance with the Policy.

The Honorable Board of Supervisors and the
Sacramento County Treasury Oversight Committee
April 30, 2021

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards* except for paragraph 3.56 regarding independence as described in the below paragraph. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

As required by various statutes within the California Government Code, County Auditor-Controllers or Directors of Finance are mandated to perform certain accounting, auditing, and financial reporting functions. These activities, in themselves, necessarily impair *Generally Accepted Government Auditing Standards'* independence standards. Specifically, auditors should not audit their own work or provide non-audit services in situations where the amounts or services involved are significant/material to the subject matter of the audit.

Although the Director of Finance is statutorily obligated to maintain the non-pooled investment in the County Treasury, the staff that has the responsibility to perform audits within the Auditor-Controller Division has no other responsibility regarding the internal control or compliance of the Fund, the accounts or records being audited including the approval or posting of financial transactions that would therefore enable the reader of this report to rely on the information contained herein.

Based on our audit, the Fund complied with the Policy for the quarter ended March 31, 2021. Also, Treasury and Investment have adequate internal control to ensure the Fund's compliance with the Policy.

This report is intended solely for the information and use of the Sacramento County Board of Supervisors, those charged with governance, Sacramento County Treasury Oversight Committee, Sacramento County Audit Committee, and Treasury and Investment's management, and should not be used for any other purpose. It is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

BEN LAMERA
DIRECTOR OF FINANCE



By: Hong Lun (Andy) Yu, CPA
Audit Manager

**COUNTY OF SACRAMENTO
TREASURY OVERSIGHT COMMITTEE
NON-POOLED INVESTMENTS
PERFORMANCE AUDIT REPORT**

**SAMPLE OF NON-POOLED INVESTMENTS TESTED
FOR THE QUARTER ENDED MARCH 31, 2021**

<u>Issue</u> ⁽¹⁾	<u>Book Value</u> <u>3/31/2021</u>	<u>% of</u> <u>Portfolio</u>
<u>Internally Managed Non-Pooled Investments</u>		
Natomas USD, Elec 18, 2020A (GO)	\$ 53,992,913.18	10
SAFCA CAD, Series 2020 (AD)	20,173,285.50	4
Natomas USD, Elec 14, 2020 (GO)	19,883,416.33	4
Sac City USD Series 2017 E (GO)	11,542,065.26	2
FCUSD SFID #5 2018 (GO)	10,133,763.54	2
San Juan USD, Elec 02, Ser 2011 (GO)	5,072,459.32	<1
Airports System Ref 2018A-C (REV)	4,839,793.23	<1
Laguna Creek Refunding (MR)	4,150,838.57	<1
McClellan Park CFD Ser. 2017A (MR)	2,583,431.52	<1
Airports System Ref 2020 (REV)	<u>923,880.80</u>	<u><1</u>
Total internally managed Non-Pooled Investments tested ⁽²⁾	<u>\$133,295,847.25</u>	<u>24</u>
Total internally managed Non-Pooled Investments	<u>\$553,143,714.85</u>	<u>100</u>
<u>Externally Managed Non-Pooled Investments</u>		
Total externally managed Non-Pooled Investments tested	<u>\$ 0</u>	<u>0</u>
Total externally managed Non-Pooled Investments ⁽²⁾	<u>\$ 92,838.14</u>	<u>100</u>

(1) The selected sample of non-pooled investments were selected based upon outstanding issues at March 31, 2021. There were no new issues this quarter.

(2) The total amount of non-pooled investments for the quarter ended March 31, 2021 was \$553,236,552.99 (\$553,143,714.85 internally managed funds and a \$92,838.14 externally managed fund).

Fund Type

(AD) – Assessment District Bonds

(GO) – General Obligation Bonds

(MR) – Mello Roos Bonds

(REV) – Revenue Bonds